

Message Text

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14

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 9326

INFO AMCONSUL MELBOURNE

USMISSION OECD PARIS

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

AMCONSUL BRISBANE

AMCONSUL PERTH

C O N F I D E N T I A L CANBERRA 8324

E.O. 11652: GDS

TAGS: EFIN, AS

SUBJECT: DEVALUATION PSYCHOLOGY RISING IN AUSTRALIA

REF: (A) CANBERRA 8142, (B) CANBERRA 8103

1. DURING THE PAST WEEK THE GRADUALLY INCREASING
EXPECTATION OF DEVALUATION IN BUSINESS AS WELL AS IN
PUBLIC CIRCLES GENERALLY HAS BEEN POWERFULLY STIMULATED BY PRESS
REPORTS THAT PRIME MINISTER FRASER, UNTIL RECENTLY A
STAUNCH OPPONENT OF DEVALUATION, HAS SIGNIFICANTLY
SOFTENED HIS OPPOSITION. WHETHER OR NOT THESE REPORTS ARE
WHOLLY ACCURATE, THEY ARE BEING WIDELY REPUBLISHED AND ARE
PROBABLY RECEIVING CONSIDERABLE CREDENCE. AS A RESULT OF
THESE DEVELOPMENTS, THE DEVALUATION PSYCHOLOGY
IS RISING VERY RAPIDLY. GIVEN THE FACT THAT UNDERLYING
ECONOMIC TRENDS HAVE FOR SEVERAL MONTHS BEEN POINTING TO
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AN INCREASING POSSIBILITY OF EVENTUAL DEVALUATION, THE

IMPACT OF THIS LATEST PSYCHOLOGICAL ACCELERATION ON BUSINESS AND FINANCIAL BEHAVIOR MIGHT PROVE IRREVERSIBLE AND THE POSSIBILITY OF SUDDEN GOVERNMENT ACTION IN THIS AREA CANNOT BE WHOLLY RULED OUT.

2. THE PRINCIPAL SOURCE OF THIS LATEST DEVALUATION FEVER IS A SERIES OF PURPORTED LEAKS, WIDELY REPORTED IN THE PRESS, CONCERNING THE CABINET-LEVEL DISCUSSIONS NOVEMBER 4 AND 5, WHICH PRECEDED THE NOVEMBER 7 ANNOUNCEMENT OF NEW FINANCIAL MEASURES (CANBERRA 8103). ACCORDING TO THESE REPORTS, PRIME MINISTER FRASER, IN THESE MEETINGS, SHOWED SOME TENDENCY TO CONSIDER THE DEVALUATION OPTION BUT WAS DISSUADED BY THE STRONG OPPOSITION OF THE TREASURY AND THE RESERVE BANK. WHEN SUBSEQUENTLY QUESTIONED IN PARLIAMENT CONCERNING THESE REPORTS, THE PRIME MINISTER DISMISSED THEM AS CONTAINING MANY ELEMENTS OF FANTASY, BUT MANY OBSERVERS CONTEND THAT HIS DISMISSAL WAS LESS FORCEFUL THAN ON PAST OCCASIONS.

3. WE HAVE SOME DIFFICULTY RECONCILING THESE LATEST SPECULATIONS CONCERNING THE PRIME MINISTER'S POSITION WITH HIS REPEATED STRONG COMMITMENTS AGAINST DEVALUATION, MANY OF THEM VOLUNTEERED ON HIS PART. THESE INCLUDE, AMONG OTHER THINGS, THE STRONG STATEMENT HE IS REPORTED TO HAVE VOLUNTEERED AT HIS BROOK CLUB DINNER WITH U.S. BUSINESSMEN DURING HIS NEW YORK VISIT SEVERAL MONTHS AGO. MOST RECENTLY, WE ARE INFORMED THAT IN HIS APPEARANCE BEFORE THE BUSINESS INTERNATIONAL CANBERRA ROUND TABLE ON NOVEMBER 3 HE DISMISSED QUESTIONS WHICH SUGGESTED THE POSSIBILITY OF DEVALUATION WITH SINGULAR BRUSQUENESS.

4. WHATEVER MAY BE THE FACTS OF THE PRIME MINISTER'S POSITION, AND WHETHER OR NOT HE IS IN THE PROCESS OF SHIFTING HIS POSITION, THE PSYCHOLOGICAL IMPACT OF RECENT DEVELOPMENTS MAY WELL INTENSIFY THE RECENT HIGH LEVEL OF CAPITAL OUTFLOW, AND FRUSTRATE THE GOVERNMENT'S PRESENT STRATEGY OF HOLDING THE LINE UNTIL CAPITAL INFLOW RESUMES. ON BALANCE, WE BELIEVE THE ODDS ARE STILL IN FAVOR OF THE GOVERNMENT HOLDING THE LINE AT LEAST UNTIL THE EARLY MONTHS OF 1977. BUT, THE EVENTS OF THE PAST WEEK HAVE

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ALMOST CERTAINLY HAD THE EFFECT OF SHORTENING THOSE ODDS.
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